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Financial Digest

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Analysis of Business Trends Plus Selected Financial Indicators

OPEC's Price Objectives . . .

The arrival of spring in the Northern Hemisphere this week may bring not only milder weather but also a severe test of the ability of the Organization of Petroleum Exporting Countries (OPEC) to enforce their desired oil price of $18 per barrel. Collective discipline will be required because demand for oil traditionally slackens in late March and early April after the winter heating season ends but before the prime summer drive time gets underway.

Last December, the OPEC members decided to reverse the declining trend in oil prices by setting a production ceiling of 15.8 million barrels a day, with the intent of restoring oil prices targeted at $18 a barrel. The big question now is whether OPEC can make its members stick to these new terms. In the recent past, OPEC has shown a poor track record for coordination and cooperation, and its members have repeatedly undercut each other on prices and production quotas. Moreover, downward pressure is mounting because buyers are resisting oil purchases at the fixed prices dictated by OPEC.

Meanwhile, last year's plunge in oil prices and the slowdown of crude oil exploration and production in the U.S. caused a surge of 23 percent in imports of crude oil and petroleum products in 1986. This has raised fears that once again we are becoming dependent on foreign oil and may be vulnerable to future energy shocks. At the same time, concern is growing that lower oil prices and abundant supplies are tempting Americans to return to previous careless habits and reverse the progress in energy conservation achieved since OPEC first boosted prices in 1973. As a result, several studies have appeared which suggest that the power to control oil markets may yet revert back to OPEC, creating the possibility of an oil shock in the 1990s as great—or greater—as those in the 1970s.

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. . . May Not Be Met . . .

However, the U.S. will be better able to weather an oil shock the next time than it was in the 1970s. The structural changes that accompanied the oil crises of 1973 and 1979, have been significant. Over the past dozen years, Americans have been adjusting to the reality of expensive oil—a process that has been very successful. Conservation and the use of alternative energy sources have reduced petroleum's share of total U.S. energy consumption to 43.2 percent last year, down from 48.6 percent in 1978.

PASSENGER CAR EFFICIENCY

Year	Average Miles Traveled Per Auto	Average Number of Gallons Consumed per Auto	Average Miles Traveled Per Gallon
1970	9,978	735	13.6
1971	10,121	746	13.6
1972	10,184	755	13.5
1973	9,992	763	13.1
1974	9,448	704	13.4
1975	9,634	712	13.5
1976	9,763	711	13.7
1977	9,839	706	13.9
1978	10,046	715	14.1
1979	9,485	664	14.3
1980	9,135	603	15.2
1981	9,002	579	15.5
1982	9,533	587	16.3
1983	9,654	578	16.7
1984	9,787	553	17.7
1985	9,827	549	17.9
1986(e)	10,071	550	18.3

(e) – estimate

Source: Department of Transportation; MH

American motorists have made major strides in energy conservation. The principal reason has been the dramatic improvement in the fuel efficiency of the nation's automobile fleet. According to the Department of Transportation, both domestic and foreign automobiles produced in 1986 averaged almost 10.5 miles more per gallon than their predecessors of a decade earlier. Not surprising, the sharp rebound in new car sales of the past few years has helped accelerate the rise in average fuel efficiency of all cars on the road (see table). This is important because U.S. gasoline consumption—the world's largest—accounts for 43 percent of the nation's total petroleum usage. While the number of cars now in existence has increased 20 percent since 1976, total U.S. consumption of gasoline is about the same today as it was a decade earlier.

With gasoline prices averaging less than 92 cents a gallon in 1986—their lowest level in eight years—tanking up at the pump last year

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left American motorists with a sense of well being not felt in more than a decade. Not surprising, they headed for the highways more than they did at any time since the early 1970s. Americans drove 2½ percent more miles last year, on average, than they did in 1985, but because of increased fuel efficiency, this increase translated into only a negligible rise in gasoline demand.

Lower prices at the pump helped renew car buyers' interest in larger cars. The market share of intermediate and larger cars rose about one percentage point in 1986; since 1981, when gasoline prices peaked, larger cars have gained more than five percentage points in market share to reach nearly 54 percent of total domestic car sales. However, since today's large cars get better mileage than their predecessors, this rise did not inhibit the overall increase in fuel efficiency of the fleet.

. . . Because of Conservation

Most of the energy conservation measures adopted in the last dozen years are fully integrated into today's economic base and will remain an important part of the energy picture—even if oil prices should fall again. Thanks to smaller, more fuel-efficient

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits of $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/25/87)	153,488	+ 1,963	– 7,639
New York City (3/4/87)	36,388	– 53	– 390
Commercial Paper (3/4/87)	336,024	– 13	+ 38,608

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/25/87)	281,230	– 897	+20,726
New York City (3/4/87)	65,631	– 581	+ 6,680

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/25/87)	785,156	– 3,573	+59,773
New York City (3/4/87)	174,103	– 1,156	+11,096

Financial Markets

	Friday 3/13/87	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.75%	– .01	– .98
180-Day Bills†	5.83	– .04	– 1.02
Longest Bills†	5.98	–0–	– .97
Recent Issues:			
61/4s 2/28/89	6.35	– .05	
65/8s 12/31/90	6.66	– .04	
71/4s 11/15/96	7.17	– .04	
71/2s 11/15/16	7.49	– .05	
Municipals:			
Bond Buyer–20 Bond Index* (3/12/87)	6.61%	+ .07	– .27
Blue List Total ($ Million)	$2,538	+ $ 210	+$ 781
30-Day Visible Supply ($ Million)	$4,654	+ $1,725	+$1,635
Total	$7,192	+ $1,935	+$2,416
Corporates:			
Moody's Aa Composite (3/12/87)	8.84%	+ .02	– .64
30-Day Visible Supply ($ Million)	$2,959	– $ 705	–$ 671
Stocks:			
Dow-Jones Averages:			
Industrials	2,258.66	– 21.57	+465.72
Transportation	935.32	– 22.89	+119.08
Utilities	216.55	– 2.53	+ 27.08
65 Stocks	855.54	– 11.94	+149.04
N.Y.S.E. Composite Index	165.31	– 0.14	+ 29.14
N.Y.S.E. Avg. Daily Vol. for Week (000's)	170,482	– 7,968	– 6,036

*46% Taxable equivalent 12.24%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 3/13/87	Week Ago
Overnight	5.94%	5.94%
1 month	6.44	6.31
3 month	6.38	6.31
6 month	6.38	6.31
1 year	6.44	6.38
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	7.13%	7.13%
Long Term (7 to 15 yrs.)	7.93	7.93

FOREIGN EXCHANGE SPOT RATES

New York Opening (3/13/87)	Currency Per U.S. $	Week Ago
Canada	1.3200	1.3325
France	6.1750	6.1130
Germany	1.8545	1.8365
Italy	1317.90	1305.00
Japan	153.08	153.59
Mexico	1089.00	1072.00
Switzerland	1.5550	1.5478
U.K.*	1.5470	1.5845

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (3/13/87) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+0.1%	–8.9%

automobiles, better home insulation and substantial capital investment by businesses in energy-saving structures and equipment, the relationship between energy use and economic growth has changed significantly over the past dozen years. For a half-century prior to the mid-1970s, each one percent rise in GNP output required a one percent increase in energy input. Since then that ratio has changed drastically: Each one percent rise in energy consumption can now support an eight percent rise in the real GNP!

Another way to look at it is that we are using less and less fuel–petroleum, natural gas, coal and others–to produce the same level of output. As evidence, the Department of Energy reports that in the third quarter of last year, only 19,900 BTUs were needed to produce one dollar of real GNP, down from 20,300 BTUs a year ago; in 1973 it took more than 27,000 BTUs. The improvement in energy efficiency is even more pronounced when only petroleum and natural gas usage is considered. Their inputs have dropped from 20,900 BTUs per each real GNP dollar in 1973, to only 13,000 in the third quarter of last year–a 38 percent reduction. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 3/11/87	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	204.396	+ 1.915	+21.087
Loans to Depository Inst.	.419	– .093	– .335
Float	.488	– .188	– .313
Total Reserve Bank Credit	221.948	+ 1.590	+21.810
Treasury Deposits with Federal Reserve Banks	3.391	+ .063	– .105
Currency in Circulation	207.293	+ 1.004	+14.887
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	167.964	– 2.046	+34.657
	3/11/87		
Member Bank Reserves:			
Total Reserves Held	55.510	+ .367	+ 9.304
Excess (Deficiency)	.851	– .205	– .116
Net Free Reserves	.660	– .015	– .078
Monetary Aggregates †		**% Change Since 3 Months' Ago***	**Year Ago**
M1 (3/2/87)	738.0	+ 12.5‡	+ 16.6‡
M2 (February '87)	2,818.6	+ 6.3	+ 9.1
M3 (February '87)	3,514.6	+ 6.5	+ 8.4
Domestic Nonfinancial Debt (3rd Q'86)	7,410.3	+ 11.4	+ 13.5

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 3/13/87	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	5.64%	5.60%	5.66%
* Federal Agencies	5.78	5.76	5.81
* Municipal Notes–High Grade (46% Taxable Equivalent)	7.41	7.59	7.59
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	6.12	6.15	6.25

‡Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	6.10%	Apr.	6.15%
15- 29 days	6.10	May	6.12
30- 59 days	6.20	Jun.	6.07
60- 89 days	6.13	Jul.	6.05
90-179 days	5.98	Aug.	6.03
180-239 days	5.85	Sep.	6.00
240-270 days	5.85		

‡Industrial Paper–Prime			
30- 89 days	6.21%	†Federal Funds Effective Rate	6.10%
90-120 days	6.17		

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'86	$ 4,261	$ 4,241	$ 4,088
Gross National Product (1982 Dollars)*	4th Q'86	$ 3,698	$ 3,686	$ 3,622
Percent Change, Annual Rate	4th Q'86	1.3	2.8	2.1
Change in Consumer Prices*	Jan '87	8.4% (1)	2.4%	3.6%
Change in Producer Prices*	Feb '87n	1.2%	7.2%	– 19.2%
Civilian Employment (Thousands of Persons)†	Feb '87n	111,382	111,011	108,557
Unemployment as % of Civilian Labor Force†	Feb '87n	6.7%	6.7%	7.2%
Personal Income*	Jan '87	$ 3,548	$ 3,547	$ 3,417
Leading Indicators Composite Index (1967=100)†	Jan '87n	183.8	185.6r	173.4
Industrial Production Index (1977=100) †	Feb '87n	127.3	126.8r	125.3
Net Change in Consumer Installment Credit †	Jan '87n	$ 0.54	$ 0.14r	$ 7.65
U.S. Merchandise Trade Balance	Jan '87	–$ 14.78	–$ 12.73	–$ 14.42
Plant and Equipment Expenditures*	1st Q'87	$386.82(a)	$394.34(a)	$377.94
Private Housing Starts (Thousands of Units)*	Jan '87	1,806	1,808	2,004
New Construction Expenditures*	Jan '87n	$ 378.5	$ 374.9r	$ 373.4
Total Business Inventories †	Jan '87n	$ 592.2	$ 586.6r	$ 585.0
Total Business Sales †	Jan '87n	$ 448.8	$ 448.8r	$ 432.0

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.
(1) Indicates new series.

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